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Chapter



Marketing: Creating and capturing customer value

You are beginning a journey into the science and practice of marketing – a journey that is both exciting and vital in the preparation for the career that awaits you. In this chapter, we start with the question, ‘What *is* marketing?’. Simply put, marketing is managing profitable customer relationships. The aim of marketing is to create value *for* customers and to capture value *from* customers in return. We start with a definition of marketing before proceeding to discuss the five steps in the marketing process – from understanding customer needs, to designing customer-driven marketing strategies and integrated marketing programs, to building customer relationships and capturing value for the firm, as shown in Figure 1.1. Finally, we discuss the major trends and forces affecting marketing in this age of customer relationships. Understanding these basic concepts, and forming your own ideas about what they really mean to you, will give you a solid foundation for all that follows.

As you start this chapter, we suggest you pay close attention to the visual representation on the next page, which is designed to give you a ‘helicopter’ view of the main concepts covered. You will find such a visual representation, or concept map, at the start of each chapter.



Learning Objectives

- Learning Objective 1** Define marketing, and outline the steps in the marketing process.
What is marketing? pp. 4–5
- Learning Objective 2** Explain the importance of understanding the marketplace and customers, and identify the five core marketplace concepts.
Understanding the marketplace and customer needs pp. 5–9
- Learning Objective 3** Identify the key elements of a customer-driven marketing strategy, and discuss the marketing management orientations that guide marketing strategy.
Designing a customer-driven marketing strategy pp. 9–13
Preparing an integrated marketing plan and program pp. 13–15
- Learning Objective 4** Discuss customer relationship management, and identify strategies for creating value *for* customers and capturing value *from* customers in return.
Engaging customers and managing customer relationships pp. 15–18
Capturing value from customers pp. 18–21
- Learning Objective 5** Describe the major trends and forces that are changing the marketing landscape in this age of relationships.
The changing marketing landscape pp. 21–28
So, what is marketing? Pulling it all together pp. 28–30

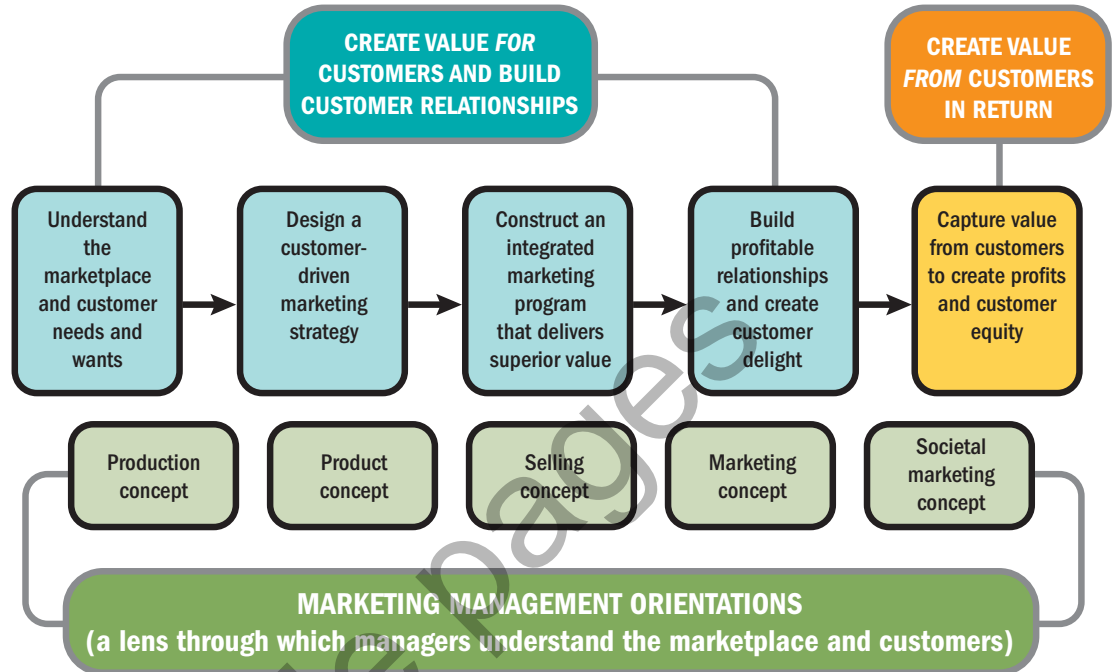
LO 1
Define marketing, and outline the steps in the marketing process.

LO 2
Explain the importance of understanding the marketplace and customers, and identify the five core marketplace concepts.

LO 3
Identify the key elements of a customer-driven marketing strategy, and discuss the marketing management orientations that guide marketing strategy.

LO 4
Discuss customer relationship management, and identify strategies for creating value for customers and capturing value from customers in return.

LO 5
Describe the major trends and forces that are changing the marketing landscape in this age of relationships.



■ What is marketing?

Marketing, more than any other business function, deals with customers. Although we will soon explore more-detailed definitions of marketing, perhaps the simplest definition is this one: *Marketing is engaging customers and managing profitable customer relationships*. The twofold goal of marketing is to attract new customers by promising superior value, and to keep and grow current customers by delivering satisfaction.

Marketing comes to you in traditional forms, such as the products you see on supermarket shelves and in the windows of shopping-centre boutiques, as well as in the advertising you see and hear in newspapers and magazines, and on television and radio. However, in recent years, marketers have adopted a host of new marketing approaches, using everything from imaginative websites and social networks to smartphone apps. These new approaches do more than just blast out messages to the masses. They reach you directly and personally. Today's marketers want to become a part of your life and enrich your experiences with their brands – to help you *engage with* their brands.

When we examine successful marketing organisations, we see that many factors contribute to making a business or other organisational type successful. These factors include great strategy, dedicated employees, good information systems and excellent implementation, among others. However, today's successful organisations have one thing in common – they have a strong market orientation, which means they are focused on their customers, their competitors and their profits (or surpluses in the case of those not operating for profit), and they have a commitment to sharing this marketing information with all parts of the organisation.¹ These organisations share an absolute dedication to understanding and satisfying the needs of customers in well-defined target markets. They motivate everyone in the organisation to produce superior value for their customers, leading to high levels of customer satisfaction.

At home, at school, where you work and where you play, you see marketing in almost everything you do. Yet, there is much more to marketing than meets the consumer's casual eye. Behind it all is a massive network of people, technologies and activities competing for your attention and purchases.

This book will give you a complete introduction to the basic concepts and practices of today's marketing. In this chapter, we begin by defining marketing and the marketing process.

Marketing defined

What is marketing? Many people think of marketing as only selling and advertising. We are bombarded every day with television commercials, catalogues, spiels from salespeople and online pitches. However, selling and advertising are but the tip of the marketing iceberg.

Today, marketing must be understood not in the old sense of making a sale – 'telling and selling' – but in the new sense of *satisfying customer needs*. If the marketer engages consumers effectively, understands their needs, develops products that provide superior customer value, and prices, distributes and promotes them well, these products will sell easily. In fact, according to management guru Peter Drucker, 'The aim of marketing is to make selling unnecessary.'²

Selling and advertising are only a part of a larger *marketing mix* – a set of marketing tools that work together to engage customers, satisfy customer needs and build customer relationships.

Broadly defined, marketing is a social and managerial process by which individuals and organisations obtain what they need and want through creating and exchanging value with others. In a narrower business context, marketing involves building profitable, value-laden exchange relationships with customers. Hence, we define **marketing** as the process by which marketing organisations engage customers, build strong customer relationships and create customer value in order to capture value from customers in return.³

The marketing process

Figure 1.1 presents a simple five-step model of the marketing process. In the first four steps, marketing organisations uncover knowledge about consumers, create customer value and build strong customer

marketing

The process by which marketing organisations engage customers, build strong customer relationships and create customer value in order to capture value from customers in return.

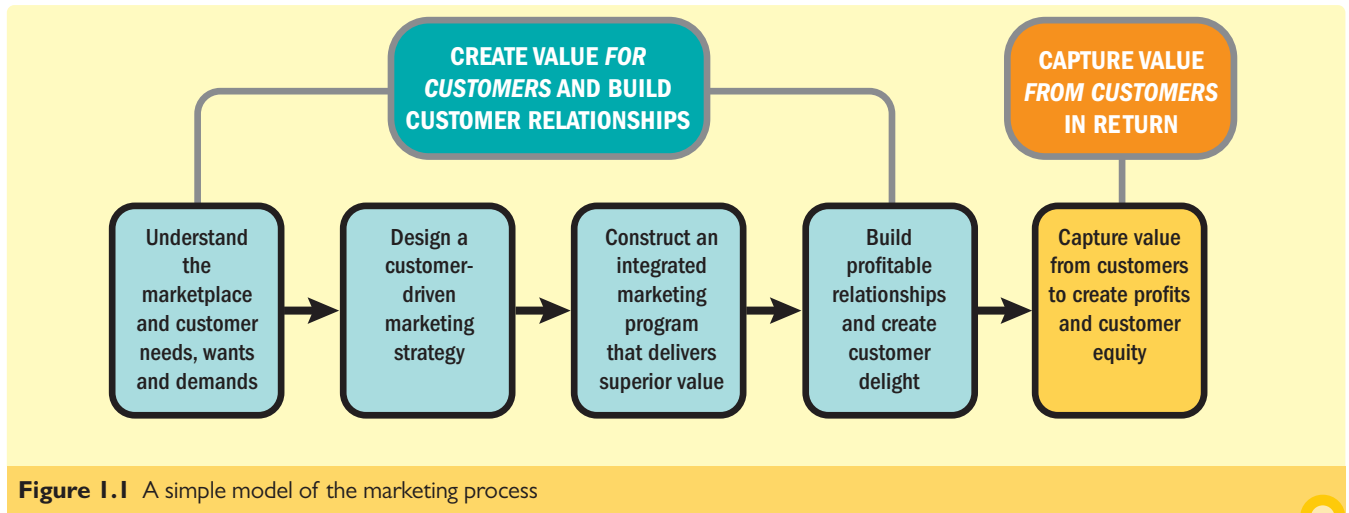


Figure 1.1 A simple model of the marketing process

relationships. In the final step, companies reap the rewards of creating superior customer value. By creating value *for* consumers, companies, in turn, capture value *from* consumers in the form of sales, profits and long-term customer equity.

In this chapter, we begin to examine the steps in this model of the marketing process. We review each step but focus more on the customer relationship management steps – understanding customers, building customer relationships and capturing value from customers.

Understanding the marketplace and customer needs

As a first step, marketers need to understand customer needs, wants and demands, and the marketplace within which they operate. We now examine five core customer and marketplace concepts: (1) *customer needs, wants and demands*; (2) *market offerings – goods, services and experiences*; (3) *customer value and satisfaction*; (4) *exchanges and relationships*; and (5) *markets*.

Figure 1.2 shows how these core marketing concepts are linked, with each concept building on the one before. Market offerings are the various product forms we examine in detail in Chapters 7 and 8. We discuss value, satisfaction and quality throughout the book. We begin our discussion of customer needs, wants and demands in this chapter, and examine them further in Chapters 4 and 5. The nature of exchange, transactions, relationships and markets is examined in this chapter and throughout the book.

Customer needs, wants and demands

The most basic concept underlying marketing is that of human needs. Human **needs** are states of felt deprivation. Humans have many complex needs. These include basic *physical* needs for food, clothing, warmth and safety; *social* needs for belonging and affection; and *individual* needs for knowledge and self-expression. While marketers may stimulate these needs, they do not create them for they are a basic part of human makeup.

Wants are the form taken by human needs as they are shaped by culture and individual personality. A hungry person in Australia, Singapore or Hong Kong might want a rice or noodle dish for a quick lunch, accompanied by green tea. A hungry person in the South Pacific might want mangoes, suckling pig and beans. Wants are described in terms of objects that will satisfy needs. As a society evolves, the wants of its members expand. As people are exposed to more objects that arouse their interest and desire, producers try to provide more want-satisfying goods and services.

needs
States of felt deprivation.

wants
The form human needs take, as shaped by culture and individual personality.

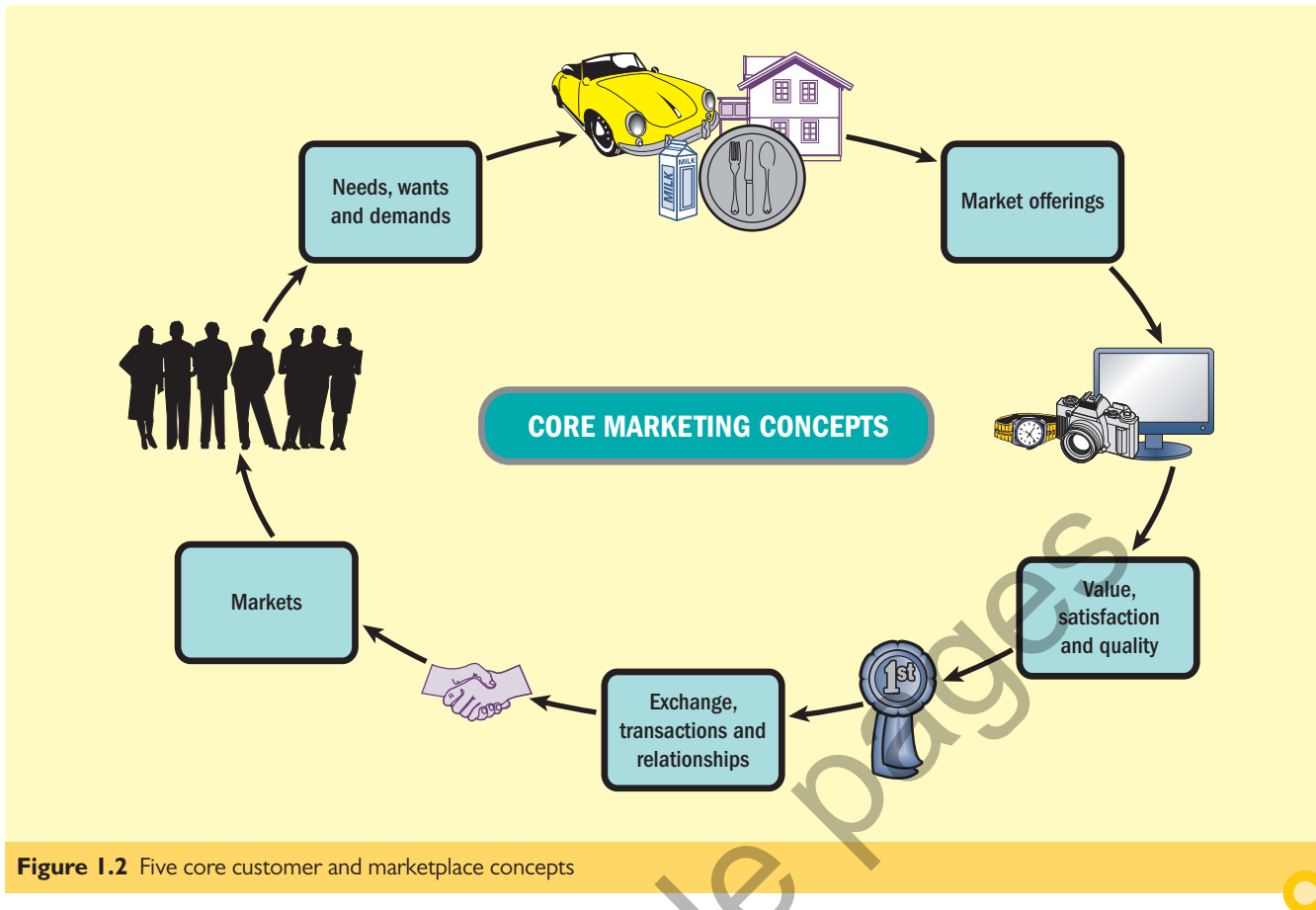


Figure 1.2 Five core customer and marketplace concepts

demands

Human wants that are backed by buying power.

People have almost unlimited wants but limited resources. Thus, they want to choose products that provide the most value and satisfaction for their money. When backed by buying power, wants become **demands**. A simple way to look at needs, wants and demands is that a person needs water to survive (thirst). The person may want a carbonated beverage to satisfy his or her thirst. If the person has the resources, he or she may demand a particular brand of carbonated beverage, such as Coca-Cola, Pepsi or another local brand.

Outstanding marketers, whether profit-oriented companies, citizen-focused government or not-for-profit organisations, go to great lengths to learn about and understand their customers' needs, wants and demands. They conduct qualitative research, such as small focus groups and customer clinics, to ascertain if there are unmet needs, wants and demands. They conduct quantitative research on a larger scale to ascertain the magnitude of the unmet needs, wants and demands. They seek customer insights when they examine their databases for patterns hidden in purchase data, customer complaints, inquiries, warranty claims and service performance data. They train salespeople and other frontline personnel to be on the lookout for unfulfilled customer needs. They observe customers using their own and competing products, and interview them in depth about their likes and dislikes. They conduct consumer research, analyse mountains of customer data and observe customers as they shop and interact, offline and online. Understanding customer needs, wants and demands in detail provides important input for designing marketing strategies. People at all levels of the company – including top management – stay close to customers.⁴

market offering

Some combination of goods, services, information or experiences offered to a market to satisfy a need or want.

Market offerings: Goods, services and experiences

Consumers' needs and wants are fulfilled through **market offerings** – some combination of goods, services, information or experiences offered to a market to satisfy a need or a want. Usually, the word *product* suggests a physical object such as a car, an iPad or a bar of soap. However, the concept of product is not

limited to physical objects; anything capable of satisfying a need can be called a product. The importance of products that are physical objects lies not so much in owning them as in the benefits they provide. We buy food not to look at, but because it satisfies our hunger. We buy a microwave not to admire its utility, but because it defrosts or cooks our food.

Marketers often use the expressions *goods* and *services/experiences* to distinguish between products that have physical form and those that do not – that is, those that are intangible. However, in Chapter 9 we show that there is a continuum involved and not a clear-cut dichotomy. Consumers also obtain benefits through experiences, people, places, organisations, activities and ideas, and so we call these products, too. Consumers decide which entertainers to watch at the movies and on television, which places to visit on holiday, which organisations to support through contributions and which ideas to adopt. Thus, the term *product* covers physical goods, services, experiences and a variety of other offerings that satisfy consumers' needs and wants. If at times the term seems not to fit, we could substitute words such as *satisfier*, *resource* or *offer*. In the broadest sense, market offerings also include other entities, such as *persons*, *places*, *organisations*, *information* and *ideas*.

Many sellers make the mistake of paying more attention to the attributes of the products they offer than to the benefits produced by these products. They see themselves as selling a product, rather than providing a solution to a need. A manufacturer of drill bits may think that the customer wants a 6 mm drill bit, but what the customer *really* wants is a 6 mm hole.


These sellers suffer from **marketing myopia**.⁵ They are so taken with their products that they focus only on existing wants and lose sight of underlying customer needs. They forget that a product is only a tool to solve a consumer's problem and they will have trouble if a new product comes along that serves the need better or less expensively. The customer with the same need will, all things being equal, want the new product.

Smart marketers look beyond the attributes of the products and services they sell. By orchestrating several services and products, they create *brand experiences* for consumers. For example, you do not just watch a V8 Supercar or MotoGP motorcycle race; you immerse yourself in the exhilarating, high-octane experience that the many on-board mini-cameras now provide.

Customer value and satisfaction

Consumers usually face a broad array of products and services that might satisfy a given need. How do they choose among these many market offerings? Customers form expectations about the value and satisfaction that various market offerings will deliver, and buy accordingly. Satisfied customers buy again and tell others about their good experiences. Dissatisfied customers often switch to competitors and disparage the original product to others.

Marketers must be careful to set the right level of expectations. If they set expectations too low, they may satisfy those who buy but may fail to attract enough buyers. If they set expectations too high, buyers will be disappointed. Customer value and customer satisfaction are key building blocks for developing and managing customer relationships. We revisit these core concepts later in the chapter.



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NATIONAL DRUGS CAMPAIGN
HEALTHY CHOICE CAMPAIGN
Australian Government

Product offerings: Social causes are products ... Often demarketing is involved.
Department of Health

marketing myopia

The mistake of paying more attention to the specific products a company offers than to the benefits and experiences produced by these products.

exchange

The act of obtaining a desired object from someone by offering something in return.

transaction

A trade between two parties that involves at least two things of value, agreed-upon conditions, and a time and place of agreement.

market

The set of all actual and potential buyers of a product or service.

Exchanges, transactions and relationships

Marketing occurs when people decide to satisfy needs and wants through exchange relationships. **Exchange** is the act of obtaining a desired object from someone by offering something in return. In the broadest sense, the marketer tries to bring about a response to some market offering. The response may be more than simply buying or trading products and services. A political candidate, for instance, wants votes; a golf club wants members; an orchestra wants an audience; an online community of practice, such as BimmerPost (BMW owners), wants subscribers who help each other; and a social action group, such as Amnesty Australia, wants idea acceptance.

Whereas exchange is the core concept of marketing, a **transaction** is marketing's unit of measurement. A transaction consists of a trade of values between two parties. In a transaction, we must be able to say that one party gives X to another party and gets Y in return. For example, if you pay \$1650 for a television set to Harvey Norman in Sydney or Singapore, you are engaged in a classic monetary transaction.

Marketing consists of actions taken to build and maintain desirable exchange *relationships* with target audiences involving a product, service, idea or other object. Beyond simply attracting new customers and creating transactions, the company wants to retain customers and grow their business. Marketers want to build strong relationships by consistently delivering superior customer value. We expand on the important concept of managing customer relationships later in this chapter.

Markets

The concepts of exchange and relationships lead to the concept of a market. A **market** is the set of actual and potential buyers of a product. These buyers share a particular need or want that can be satisfied through exchange relationships.

Marketing means managing markets to bring about profitable customer relationships. However, creating these relationships takes work. Sellers must search for buyers, identify their needs, design good market offerings, set prices for those offerings, promote them, and store and deliver them. Activities such as consumer research, product development, communication, distribution, pricing and service are core marketing activities.

Although we normally think of marketing as being carried out by sellers, buyers also carry out marketing. Consumers market when they search for products, interact with companies, obtain information and make their purchases. In fact, today's digital technologies, from websites and online social networks to tablets and smartphones, have empowered consumers and made marketing a truly interactive affair. Thus, in addition to customer relationship management, today's marketers must also deal effectively with *customer-managed relationships*. Marketers are no longer asking only, 'How can we reach our customers?' but also, 'How can our customers reach us?' and even, 'How can our customers reach each other?'

Figure 1.3 shows the main elements in a marketing system. Marketing involves serving a market of final consumers in the face of competitors. The company and competitors research the market and interact with consumers to understand their needs. They then create and send their market offerings and messages to consumers, either directly or through marketing intermediaries. All of the parties in the system are affected by major environmental forces (demographic, economic, physical, technological, political/legal and social/cultural).

Each party in the system adds value for the next level. In the figure, the arrows represent relationships that must be developed and managed. Thus, a company's success at building profitable relationships depends not only on its own actions but also on how well the entire system serves the needs of final consumers. Coles Supermarkets cannot fulfil its promise of everyday low prices unless its suppliers provide

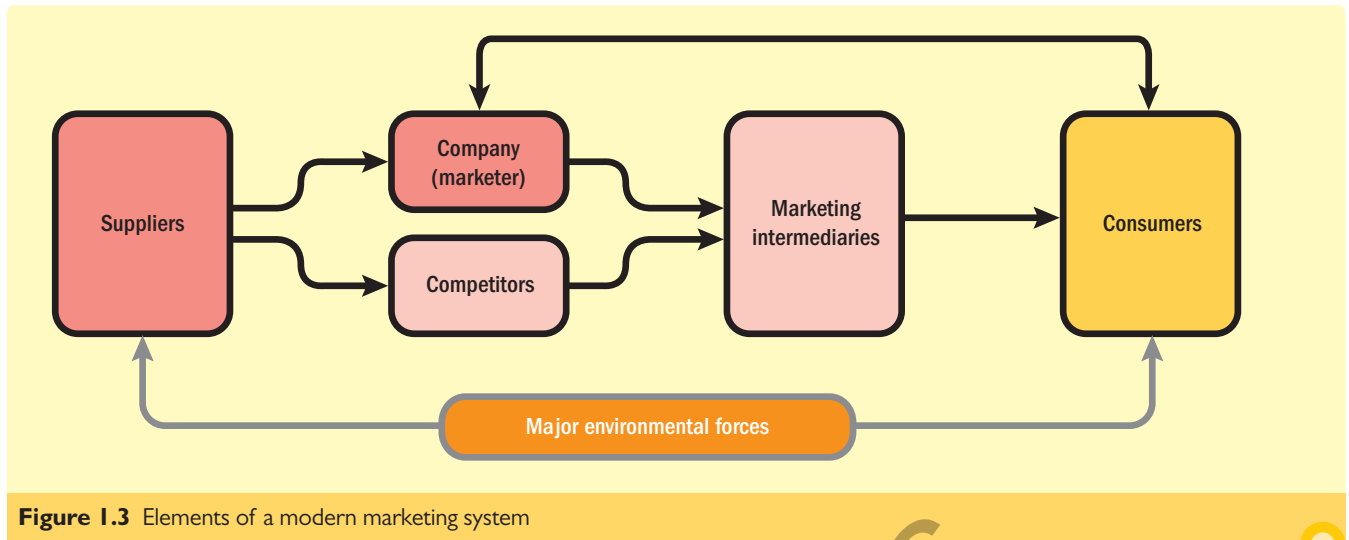


Figure 1.3 Elements of a modern marketing system

merchandise at low costs. And Toyota cannot deliver a high-quality car-ownership experience unless its dealers provide outstanding sales and service.

Designing a customer-driven marketing strategy

Once marketing management fully understands consumers and the marketplace, it can design a customer-driven marketing strategy. We define **marketing management** as the art and science of choosing target markets and building profitable relationships with them. The marketing manager's aim is to attract, engage, keep and grow target customers by creating, delivering and communicating superior customer value.

To design a winning marketing strategy, the marketing manager must answer two important questions: (1) *What customers will we serve? (Who is our target market?)* and (2) *How can we serve these customers best? (What is our value proposition?)*. We introduce these aspects of marketing strategy here, and discuss them further in later chapters.

Selecting customers to serve

Marketing management first decides *who* the organisation will serve. This is done by examining the various segments into which the market naturally falls, based on the appropriate factors that can be used to analyse a market. We discuss this aspect in depth in Chapter 6. Marketers know they cannot serve all customers in every way with a single market offering. They know it is necessary to select customers they can serve well and profitably. This may not involve continuously seeking increasing market demand; at times, it may be necessary to seek fewer customers and reduce demand.

Most people think of marketing management as finding enough customers for the company's current output, but this is too limited a view. The organisation has a desired level of demand for its products. At any point in time there may be no demand, adequate demand, irregular demand or too much demand, and marketing management must find ways to deal with these different demand states. (See Table 1.1 for a demand management ready-reckoner.) Marketing management is concerned not only with finding and increasing demand but also with changing or even reducing it. For example, Uluru (Ayers Rock) might have too many tourists wanting to climb it, and Daintree National Park in North Queensland can become

marketing management

The art and science of choosing target markets and building profitable relationships with them.

Table 1.1 Demand management ready-reckoner

1 Negative demand
A market is in a state of negative demand if a major part of the market dislikes the product and may even pay a price to avoid it. Examples include vaccinations, dental work and gall-bladder operations.
2 No demand
Target consumers may be unaware of or uninterested in the product. The marketing task is to find ways to connect the benefits of the product with the person's natural needs and interests.
3 Latent demand
Many consumers may share a strong need that cannot be satisfied by any existing product. Examples include safer communities and more fuel-efficient cars. The marketing task is to measure the size of the potential market and develop effective products and services that would satisfy the demand.
4 Declining demand
Every organisation, sooner or later, faces declining demand for one or more of its products. The marketing task is to reverse the declining demand through creative remarketing of the product.
5 Irregular demand
Many organisations face demand that varies on a seasonal, daily or even hourly basis, causing problems of idle or overworked capacity. Examples include public transport, museums and hospital operating theatres. Supermarkets may be less frequented early in the week and understocked after heavy weekend trading. The marketing task is to find ways to alter the same pattern of demand through flexible pricing (e.g. early-bird specials), promotion and other incentives.
6 Full demand
Organisations face full demand when they are satisfied with their volume of business. The marketing task is to maintain the current level of demand in the face of changing consumer preferences and increasing competition.
7 Overfull demand
Some organisations face a demand level that is higher than they can, or want to, handle. Examples include a national park that is carrying more tourists than the facilities can handle. The marketing task, called demarketing, requires finding ways to reduce the demand temporarily or permanently. Demarketing aims not to destroy demand but only to reduce its level, temporarily or permanently.
8 Unwholesome demand
Unwholesome products will attract organised efforts to discourage their consumption. The marketing task is to get people who like something to give it up, using such tools as fear messages, price hikes and reduced availability.
Sources: For a fuller discussion, see Philip Kotler, 'The major tasks of marketing management', <i>Journal of Marketing</i> , October 1973, pp. 42–9; and Phyllis Berman & Katherine Bruce, 'Make-up gets a make-over', <i>BRW</i> , 7 May 1999, pp. 56–7.

overcrowded in the tourist season. Power companies sometimes have trouble meeting demand during peak usage periods.

In these and other cases of excess demand, the needed marketing task, called **demarketing**, is to reduce demand temporarily or permanently. The aim of demarketing is not to completely destroy demand, but only to reduce or shift it to another time or even to another product. Thus, marketing management seeks to affect the level, timing and nature of demand in a way that helps the organisation achieve its objectives.

A marketing organisation's demand comes from two groups: new customers and repeat customers. Beyond designing strategies to attract new customers and create transactions with them, marketing organisations go all out to retain current customers and build lasting relationships. Simply put, marketing management is *customer management* and *demand management*.

Choosing a value proposition

The marketing organisation must also decide how it will serve targeted customers – how it will *differentiate* and *position* itself in the marketplace. A marketing organisation's *value proposition* is the set of benefits or values it promises to deliver to consumers to satisfy their needs.

demarketing

Marketing in which the task is to temporarily or permanently reduce demand.

Such value propositions differentiate one brand from another. They answer the customer's question, 'Why should I buy your brand rather than a competitor's?'. Marketing organisations must design strong value propositions that give them the greatest advantage in their target markets. For example, Telstra's value positioning in 2016 was 'It's how we connect'. The company's value propositioning is more easily identified in its WiFi advertising, which used tennis and humour to make it stand out and finished with the statement 'Telstra Air is how' – how to stay in touch using thousands of WiFi hotspots.

Marketing management orientations

We have seen that marketing managers carry out tasks to achieve desired behaviour in defined target markets and to build profitable relationships with target customers. Questions arise in this regard. For example, what *philosophy* should guide these marketing efforts? What weight should be given to the interests of the organisation, the customers and the society? Very often, these interests conflict with each other.

There are five alternative concepts under which organisations may conduct their marketing activities: (1) *production*, (2) *product*, (3) *selling*, (4) *marketing* and (5) *societal marketing*. We discuss each of these below.

The production concept

The **production concept** holds that consumers will favour products that are available and highly affordable. Therefore, management should focus on improving production and distribution efficiency. This concept is one of the oldest philosophies that guide sellers.

The production concept is still a useful philosophy in some situations. For example, both personal-computer maker Lenovo and home-appliance maker Haier dominate the highly competitive, price-sensitive Chinese market through low labour costs, high production efficiency and mass distribution. However, although useful in some situations, the production concept can lead to marketing myopia. Companies adopting this orientation run a major risk of focusing too narrowly on their own operations and losing sight of the real objective – satisfying customer needs and building customer relationships.

The product concept

Another major concept guiding sellers, the **product concept**, holds that consumers will favour products that offer the most quality, performance and innovative features. Thus, an organisation should devote energy to making continuous product improvements. Some manufacturers believe that if they can build a better mousetrap the world will beat a path to their door.⁶ But they are often rudely shocked. Buyers may well be looking for a better solution to a mouse problem, but not necessarily for a better mousetrap. The solution might be an electronic deterrent, an exterminating service or even a house cat, or something that works better than a mousetrap. Furthermore, a better mousetrap will not sell unless the manufacturer designs, packages and prices it attractively, places it in convenient distribution channels, brings it to the attention of people who need it and convinces buyers that it is a better product.

The product concept can also lead to marketing myopia. For instance, railways management once thought that users wanted trains, rather than transportation, and overlooked the growing challenge from airlines, buses, trucks and cars. FTA-TV (free-to-air television) station management who target narrow segments overlook the fact that, in general, younger people watch less television in favour of interaction with each other via mobile devices, instant messaging and email, interactive games and social networking on the web, and even watch sporting events on YouTube after the fact.

The selling concept

Many companies follow the **selling concept**, which holds that consumers will not buy enough of the firm's products unless the firm undertakes a large-scale selling and promotion effort. The selling concept is

production concept

The idea that consumers will favour products that are available and highly affordable, and that the organisation should therefore focus on improving production and distribution efficiency.

product concept

The idea that consumers will favour products that offer the most quality, performance and features, and that the organisation should therefore devote its energy to making continuous product improvements.

selling concept

The idea that consumers will not buy enough of the firm's products unless the firm undertakes a large-scale selling and promotion effort.



The marketing concept: KFC colourfully proclaims how it delivers satisfaction – 'It's finger lickin' good'.

Bloomberg via Getty Images

typically practised with unsought goods – those that buyers do not normally think of buying, such as insurance. These industries must be effective at tracking down prospects and selling them on product benefits.

Such aggressive selling, however, carries high risks. It focuses on creating sales transactions rather than on building long-term, profitable customer relationships. The aim often is to sell what the company makes, rather than making what the market wants. It assumes that customers who are coaxed into buying the product will like it. Or, if they do not like it, they will possibly forget their disappointment and buy it again later. These are usually poor assumptions.

The marketing concept

The **marketing concept** holds that achieving organisational goals depends on determining the needs and wants of target markets and delivering the desired satisfaction more effectively and efficiently than competitors do. The marketing concept has often been stated in colourful ways: 'Finger lickin' good' (KFC), 'Beanzmeanz Heinz' (Heinz), 'You are 24 hours of sun!' (Fronius solar energy) and 'Where do you want to go today?' (Microsoft).

marketing concept

The marketing management philosophy which holds that achieving organisational goals depends on knowing the needs and wants of target markets and delivering the desired satisfactions better than competitors do.

has often been stated in colourful ways: 'Finger lickin' good' (KFC), 'Beanzmeanz Heinz' (Heinz), 'You are 24 hours of sun!' (Fronius solar energy) and 'Where do you want to go today?' (Microsoft).

The selling concept and the marketing concept are sometimes confused. Figure 1.4 compares the two concepts. The selling concept takes an *inside-out* perspective. It starts with the factory, focuses on the company's existing products, and calls for heavy selling and promotion to obtain profitable sales. It focuses primarily on customer conquest – getting short-term sales with little concern about who buys or why.

In contrast, the marketing concept takes an *outside-in* perspective. As Herb Kelleher, Southwest Airlines' colourful co-founder, puts it, 'We don't have a marketing department; we have a customer department.' The marketing concept starts with a well-defined market, focuses on customer needs and integrates all the

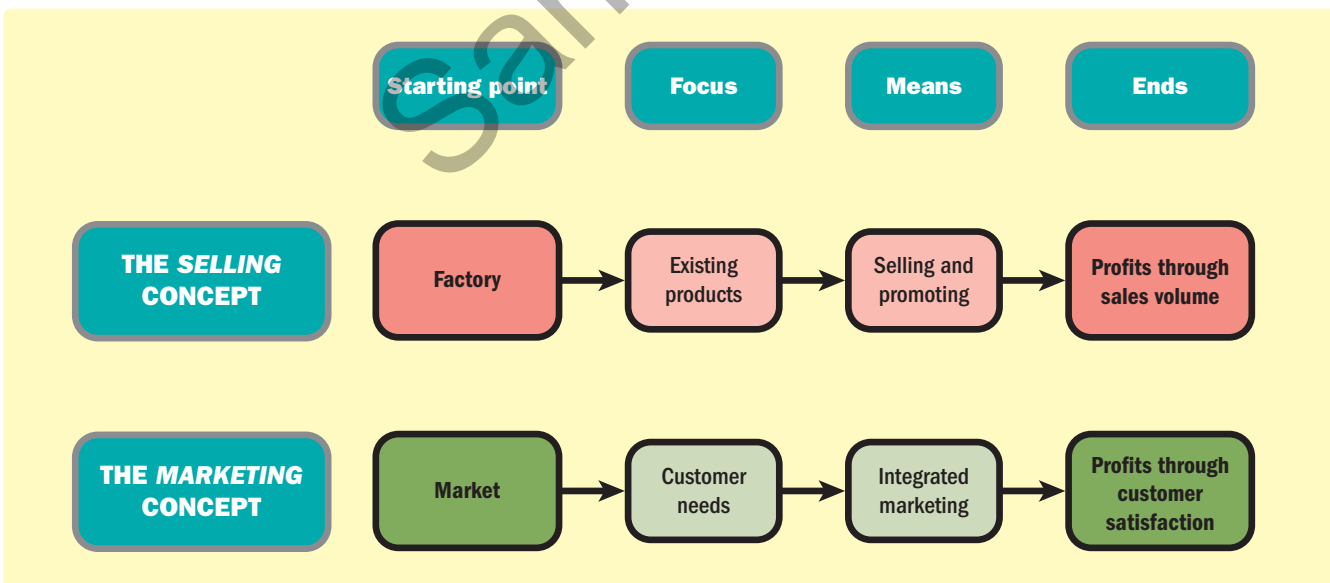


Figure 1.4 The selling and marketing concepts contrasted

marketing activities that affect customers. In turn, it yields profits by creating lasting relationships with the right customers based on customer value and satisfaction.

Implementing the marketing concept often means more than simply responding to customers' stated desires and obvious needs. *Customer-driven* companies research current customers deeply to learn about their desires, gather new product and service ideas, and test proposed product improvements. Such customer-driven marketing usually works well when a clear need exists and when customers know what they want.

In many cases, however, customers *do not* know what they want or even what is possible. As Henry Ford once remarked, 'If I'd asked people what they wanted, they would have said faster horses.'⁷ For example, even 20 years ago, how many consumers would have thought to ask for now-commonplace products such as tablet computers, smartphones, digital cameras, 24-hour online buying and satellite navigation systems (GPS) in their cars? Such situations call for *customer-driven* marketing – understanding customer needs even better than customers themselves do and creating products and services that meet existing and latent needs, now and in the future. As an executive at 3M puts it, 'Our goal is to lead customers where they want to go before *they* know where they want to go.'

The societal marketing concept

The **societal marketing concept** questions whether the pure marketing concept overlooks possible conflicts between consumer *short-run wants* and consumer *long-run welfare*. Is a firm that satisfies the immediate needs and wants of target markets always doing what is best for consumers in the long run? The societal marketing concept holds that marketing strategy should deliver value to customers in a way that maintains or improves both the consumer's *and society's* wellbeing. It calls for *sustainable marketing* – socially and environmentally responsible marketing that meets the present needs of consumers and businesses while also preserving or enhancing the ability of future generations to meet their needs.

Even more broadly, many leading business and marketing thinkers are now preaching the concept of shared value, which recognises that societal needs, not just economic needs, define markets.⁸

The concept of shared value focuses on creating economic value in a way that also creates value for society. A growing number of companies known for their hard-nosed approaches to business – such as GE, Dow, Google, IBM, Intel, Johnson & Johnson, Nestlé, Unilever and Walmart – are rethinking the interactions between society and corporate performance. They are concerned not just with short-term economic gains but with the wellbeing of their customers, the depletion of natural resources vital to their businesses, the viability of key suppliers and the economic wellbeing of the communities in which they operate.

One prominent marketer calls this *Marketing 3.0*. 'Marketing 3.0 organisations are values-driven,' he says. 'I'm not talking about being value-driven. I'm talking about "values" plural, where values amount to caring about the state of the world.' Another marketer calls it *purpose-driven marketing*. 'The future of profit is purpose,' he says.⁹

societal marketing concept

The idea that a company's marketing decisions should consider consumers' wants, the company's requirements, consumers' long-run interests and society's long-run interests.

■ Preparing an integrated marketing plan and program

The company's marketing strategy outlines which customers the company will serve and how the company will create value for these customers. Next, the marketer develops an integrated marketing program that will actually deliver the intended value to target customers. The marketing program builds customer relationships by transforming the marketing strategy into action. It consists of the firm's *marketing mix* – that is, the set of marketing tools the firm uses to implement its marketing strategy.

While the ultimate aim may be to modify people's behaviour – to drive more carefully, drink less alcohol, use less energy or water, think favourably of a political party, give more to a charitable organisation or buy a particular brand – marketing managers have a defined set of tools they can use. The set of tools most marketers employ, in varying combinations, has developed most recently from the knowledge gained in business-to-business marketing (formerly industrial marketing) and in marketing services. We refer to these tools (see Figure 1.5) as the *extended marketing mix*. Each of the main marketing mix tools (product, price, placement logistics and promotion) is discussed in more detail in the chapters forming Sessions 2 and 3. It should be noted at the outset that the three remaining marketing mix tools (people, process and physical evidence) are discussed throughout the book for reasons which should become clear as the story unfolds.

To deliver on its value proposition, the marketing organisation must first create a need-satisfying market offering (product). It must decide how much it will charge for the offer (price) and where it will make the offer available to target customers (placement). It must communicate with target customers about the offer and persuade them of its merits (promotion). It must decide how relationships will be developed and maintained and who will do this (people). It must decide on how customer satisfaction will be delivered and recorded (technologies) – whether a service/experiential product or after-sales service (process). And, lastly, it must manage customer expectations and relative service quality, thereby ensuring that customers have realistic expectations which the marketing organisation can meet (physical evidence). The marketing organisation must blend all these marketing mix tools into a comprehensive, integrated marketing program that communicates and delivers the intended value to chosen customers. We explore marketing programs and the marketing mix in much more detail in later chapters.

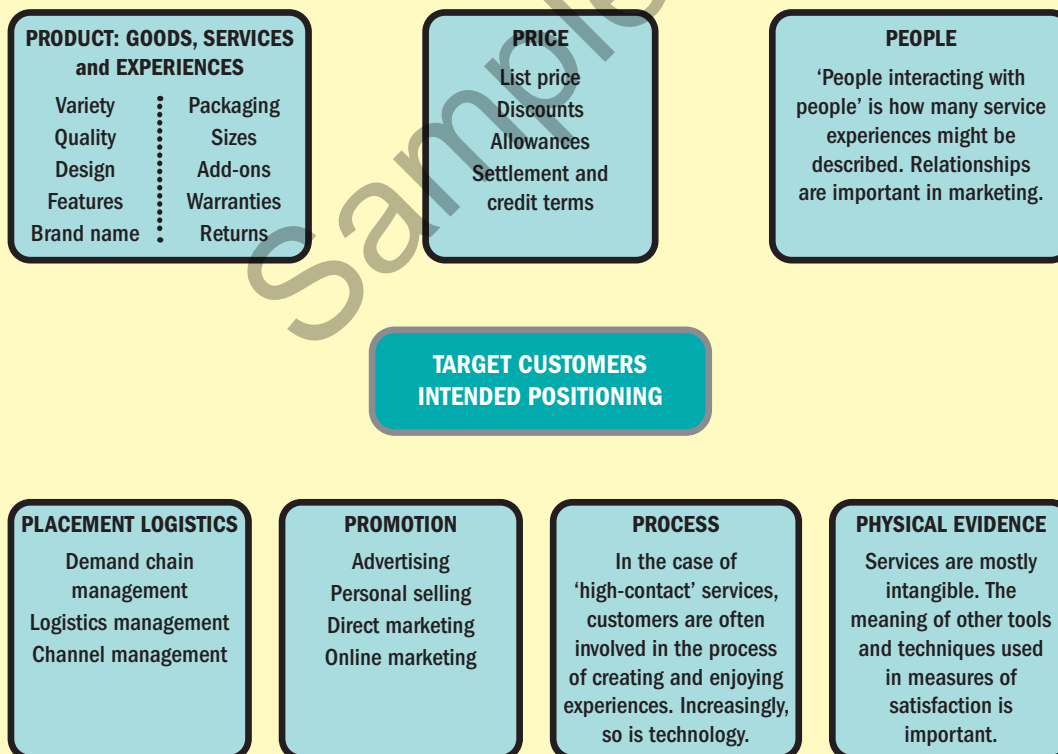


Figure 1.5 The extended marketing mix

LINKING THE CONCEPTS

Stop here for a moment and stretch your mind. What have you learned so far about marketing? Set aside the more formal definitions we have examined and try to develop your own understanding of marketing.

- In *your own words*, what *is* marketing? Write down *your* definition. Does your definition include such key concepts as customer value, engagement and relationships?

- What does marketing *mean* to you? How does it affect your daily life?
- What brand of athletic shoes did you last purchase? Describe your relationship with Nike, adidas, New Balance, Asics, Reebok, Puma, Converse or whatever brand of shoes you purchased.

Engaging customers and managing customer relationships

The first three steps in the marketing process – understanding the marketplace and customer needs, designing a customer-driven marketing strategy and constructing marketing programs – all lead to the fourth and most important step: building profitable customer relationships. We first discuss the basics of customer relationship management. Then we examine how companies go about engaging customers on a deeper level in this age of digital and social marketing.

Customer relationship management

Customer relationship management is perhaps the most important concept of modern marketing. In its broadest sense, *customer relationship management* is the overall process of building and maintaining profitable customer relationships by delivering superior customer value and satisfaction. It deals with all aspects of acquiring, keeping and growing customers. Hence, more specifically, **customer relationship management (CRM)** is the process of managing detailed information about individual customers and carefully managing customer touch points in order to maximise customer loyalty.

Relationship building blocks: Customer value and satisfaction

The key to building lasting customer relationships is to create superior customer value and satisfaction. Satisfied customers are more likely to be loyal customers and to give the marketing organisation a larger share of their business.

Customer value

Attracting and retaining customers can be a difficult task. Customers often face a bewildering array of products and services from which to choose. A customer buys from the firm that offers the highest **customer-perceived value** – the customer's evaluation of the difference between all the benefits and all the costs of a market offering relative to those of competing offers. Importantly, customers often do not judge product values and costs accurately or objectively. They act on *perceived* value. For example, is a Tesla Model 3 really the most economical choice when buying a motor vehicle? In reality, it might take years to save enough in reduced fuel costs to offset the car's higher purchase price. However, Tesla Model 3 buyers perceive that they are getting real value. It is all a matter of personal value perceptions. For many consumers, the answer to our question is 'no', but – for the target segment of style-conscious, affluent buyers – the answer is 'yes'.

Customer satisfaction

Customer satisfaction depends on the product's perceived performance relative to a buyer's expectations. If the product's performance falls short of expectations, the customer is dissatisfied. If performance matches expectations, the customer is satisfied. If performance exceeds expectations, the customer is highly satisfied or delighted. Outstanding marketing companies go out of their way to keep

customer relationship management (CRM)

Managing detailed information about individual customers and carefully managing customer touch points in order to maximise customer loyalty.

customer-perceived value

The customer's evaluation of the difference between all the benefits and all the costs of a marketing offer relative to those of competing offers.

customer satisfaction

The extent to which a product's perceived performance matches or exceeds a buyer's expectations.